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Many a slip 'tween cup and lip: District fiscal practices and their effect on school spending

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Summary:
Recent research has surfaced surprising spending differences among schools within the same district. Unlike spending variations across districts, school level spending variations have nothing to do with different local tax bases. Instead, outmoded but typical district budgeting practices are to blame, creating significant implications for current policy efforts to improve K-12 education.

Imagine an urban school district spending $2,900 more per pupil in one school than in another – generating an additional $900,000 for the school. One might speculate that the additional spending is driven by student needs, but in this real life example, it has nothing at all to do with the kids. The reality is that spending varies significantly from school to school within a district. And, while some spending variation among schools results from differing student needs, much more is driven by the antiquated, often haphazard, budgeting practices typical in large urban school districts.

How can district policymakers and parents allow such blatant spending differences to persist among their own schools? The bottom line is that they probably don't know that they exist, as district budgeting and accounting practices make it incredibly difficult to determine exactly how much a district spends on any one school. For the last five years, researchers at the Center on Reinventing Public Education have been digging deep into district spending, uncovering spending patterns in ten different districts. We began in the first district by asking what we thought was a simple question: how much does the district spend on each school it operates? Many districts later, we are now no longer surprised that this question is not easily answered. We are now accustomed to getting the answer to this question only by starting at the school level and building up the expenditures for each by tracing every dollar spent by districts.

The results of our work in several major urban districts are startling. They suggest that spending among schools varies substantially and often indiscriminately within districts, and that district leaders are largely unaware of where their dollars are going. And while this state of affairs has lay hidden for years, more than ever, there is now very good reason to take a look beneath the school district lid.

Here's how it works

It is not easy to trace most dollars appropriated to students. Outmoded district financial practices focus more on programs and line items, than on schools or kids. If you ask a district leader how money is spent, they will likely show you a thick board-approved budget that details spending by items (e.g., teacher FTEs, supplies, and administration) and by programs or departments (e.g., elementary education, professional development, student services, and bilingual education). But reams of such data tell us nothing about how much is spent on any one school versus another. Our research highlights three ways in which district budgeting practice shapes the distribution of resources to individual schools – often to the disadvantage of the neediest students..

1. School budgets yield only a partial and blurry view of school spending differences

Districts that create individual school budgets (not all do) are taking steps toward tracking a portion of their spending by school. In most cases, a staff-based formula is used to allocate full-time staff based on increments of student enrollment (e.g., a teacher for every 25 students and a vice principal when enrollment exceeds 400). Districts then allocate additional staff on a case-by-case basis, such as a music teacher for a specific magnet school or a bilingual education teacher for schools with higher concentrations of non-English speaking students. The district then totals up the number of full-time equivalent staff positions and converts them into dollars using district-wide average salaries for each type of staff.

Per pupil spending disparities appear when fixed staff allocations are divided among different enrollments,[i] but even more significant disparities are created because of line-item staff additions. Sometimes the staff allocations make sense because they address the particular needs of a school's student population. Other times, the disparities are simply by-products of political influence, or history ("we've always had an extra librarian"), and/or the special interests of central department leaders. In many cases, the non-formulaic allocations add up to create some pretty significant spending differences for some schools. Extra staff allocations for a Montessori focus in one school amounted to a 74 percent increase in spending over the district average.

With staff based allocations, year-to-year adjustments are made in terms of cutting staff or programs (not dollars), which incites near rebellion at the local level. In one district, when budget cuts threatened to eliminate a non-formulaic music teacher, students playing instruments turned out en masse to school board meetings until the idea was abandoned. Staff positions, whether justified or not, become sacred and untouchable. Those principals that know how to work the system can often rake in the lion's share of these non-formulaic allocations. In Denver, without exception, the newest schools with no history working the system receive less per pupil than the rest of the district's schools.

2. Using salary averages, instead of true labor costs, buries real spending differences in ways that hurt poor children

Further problems are created by the near universal practice of salary averaging – accounting for labor costs by using the average district salary for each school staff position rather than the real salary earned by individual employees. Relying on average salaries can greatly inflate, or deflate, the actual expenditures at any given school. As a result, two schools may appear to have the same per pupil budgets while, in reality, the district spends significantly more at the school with more experienced (and higher paid) teachers. As a 2002 analysis of Baltimore City showed, teachers at one high poverty school were paid an average of $37,618 as compared to over $57,000 at another school in the same district.

Spending differences from school to school, after we adjust for salary averaging, are not random. As has been widely documented, teacher preferences dictate assignment in ways such that the greenest teachers generally serve in the most struggling schools, and thus the real spending on a teacher in a high poverty school is less than on the district's average teacher. By choosing to use only average salaries in district budgeting practices, these spending differences that shortchange high poverty schools fly well below the radar.

3. Uneven central spending is undocumented at the school level

Central budgets reflect spending not represented in school budgets, amounting to 40 - 60 percent of a district's total operating expenditures. While some of this spending does not directly affect students (e.g., debt financing, Office of the General Counsel, and Human Resources), other spending represents supplemental funds and/or services that schools receive above and beyond those reported in the school budgets. In many cases, central spending ends up benefiting select schools more than others (e.g., special program staff, focused professional development, roaming specialists, truancy programs, etc.). In Denver, central spending increased the overall resources available to district schools by nearly one third.

Central spending drives significant variation in school level resources and yet districts have little means for assessing (or even coordinating) the distribution of these resources. Much of central spending is carved up and overseen by numerous departmental staff who create their own unique rules for distribution of their resources. For example, central budgets might fund a special art appreciation program in three schools, planetarium field trips for two schools, specialists instructed to respond to school requests, roaming therapists that can choose where to spend their day, matching funds for elective teacher education costs, and so on and so on. Allocation of central budgets is anything but strategic. In our research, the allocation of centrally controlled resources drove more inequality in school spending than school budget staffing formulas or the use of average-price accounting.

Adding it up, the impact of spending differences within districts is alarming.

Together, these three budgeting practices can lead to significant differences in spending from one school to the next. And, most district leaders simply don't have a clear sense of the magnitude of the total differences in spending across schools.

In district after district, my research team has found multiple examples where one school received less than half the resources of another with similar students. In one case, we found a school that received over three times the per pupil expenditures of another *in the same district*, even after taking into account the added spending for students with special needs. What's more, we've found many cases where expenditures for students with special needs essentially offset deficiencies in base funding, and thus did little to augment the total spending levels for students with special needs.

How is it possible that local leaders and constituents accept such erratic spending patterns? The most important answer is that they don't know about real spending patterns and in many cases are wrong about what kinds of schools are getting the most money. In one district we studied, the school board was determined to increase funding for middle schools, which it thought received less money than other schools; as we discovered, middle schools were already receiving more money per pupil than elementary and high schools but the district didn't know it. Another district proposed to close its small schools thinking they were more expensive per pupil, but in fact some of its small were operating at lower than average cost.

With no systematic accounting mechanisms that allow for comparing apples to apples, surfacing real spending differences is no simple task. Reporters recently accessed spending data from Chicago Public Schools for a story on how spending compared in predominantly African Americans schools to that in predominantly Hispanic schools. District leaders responded that such spending comparisons simply were not possible. District spending figures combined costs for preschool, special education, and vocational education services, making any spending comparisons across schools with existing financial data invalid. The bottom line is that most district leaders simply don't have a clear sense of the magnitude of the total differences in spending across schools.

One thing is clear: the amount spent on any one type of child – say a non-English speaking student – varies tremendously within a district depending on what *school* the child attends. Unlike the variations in spending across districts, these variations within districts have nothing to do with access to resources. The spending differences among schools within a district have to do with staffing patterns, choices about where particular programs are placed, special staff assignments, and other oddities of allocation practices.

Fiscal practices undermine district efforts to manage money

These fiscal practices do more than just hinder our understanding of how districts spend money. Clear spending information is critical for both financial stability and efforts to spend money strategically. With some 200,000 line items and floating averages used in place of real costs, it is no surprise that district leaders struggle to keep track of spending. Plugging the budget[ii] and reliance on false averages is exactly what led Seattle's former chief to trouble, driving a roughly $30 million deficit that district leaders didn't see coming. In that same year, superintendents in Baltimore and Oakland were also ousted because of unsuspected deficits in the tens of millions.

And without good spending data, most district leaders must make difficult decisions about where to place, or eliminate, programs without any insight into how these decisions impact the relative spending at any one school as compared to another. In one district, a recent decision to eliminate a $300,000 program benefiting Latino students was made without recognition that the schools benefiting from the program were already shortchanged over $400,000 each year because of salary averaging.

The existing fiscal practices are not only difficult to manage, they reward political influence, and fuel distrust for district leaders. In a system that lacks transparency, the subunits (in this case school leaders) assume that the squeaky wheel gets the grease and as a result, squeak a lot. Teacher unions assume district leaders are hiding pots of cash and consequently, contract negotiations start out hostile. As constituents distrust district level spending decisions, voter approved levies come with increasingly prescriptive instructions for how levy money can be used; and the education beat stays on the lookout for spending scandals. The distrust creates an adversarial environment for district leadership, further complicating an already near impossible job.

District spending practices thwart policy efforts to improve education

For years, policy makers at the state and federal levels have attempted to do their part in addressing achievement with designated funding for high needs students, accountability requirements, and incentives for new school models. Yet, these types of policy efforts are undoubtedly hindered by school districts' fiscal practices.

In the case of categorical aid, billions of dollars are spent by states and the federal government to help districts educate high needs students. But, because of district budgeting practices, the potential impact of programs like that established by federal Title I legislation are not fully realized. Title I requires that comparable services for high poverty kids exist before Title I funding can be accessed so that this money will serve to augment spending on high poverty students. However, Title I allows districts to use average salaries in determining whether spending has been comparable among high and low poverty schools. Further, districts fail to account for central spending and their impact on high poverty schools. With current budgeting practices in play, how can Title I comparability be measured with any degree of confidence? We can be sure that in many cases, Title I funds flow to schools being shortchanged by their own districts.

In the case of accountability legislation that holds schools accountable for student performance; without a doubt, success hinges upon equitable allocation of resources. Yet, as we have seen, district budgeting practices do little to ensure that schools have access to similar resource levels and mask the resources that they actually receive. Current budgeting practices that yield erratic spending differences among schools certainly undermine efforts to hold all schools to the same standards.

In recent years, we've also seen efforts to encourage new options for schooling—another effort that requires spending data at the level of the school. In order for new schooling options to be viable, policy makers must have confidence that they receive the same funds as spent on existing public schools. Similarly, there is no way for policymakers to assess the cost effectiveness of new schooling models without accurate cost estimates. And on a practical level, districts with school choice will need some mechanism by which public funds can be transferred as students transfer from one school option to the next within a district.

The challenge: improved budgeting policies through spending transparency

Especially in today's policy environment, a clear case can be made for gaining transparency into district spending. The good news is that change is taking place in some districts, so new models do exist. New formulas and on-line tools are being developed to help districts take stock of their spending[iii] which a few districts are electing to do. New accounting methods[iv] help districts adapt their old systems with minimal changes to yield accurate spending data by school. And some districts are even adopting new methods for allocating resources to schools. School districts in Houston and Cincinnati, for example, have implemented "student based budgeting" (or "weighted student funding") - opting to fund students rather than school staff positions. By identifying different spending increments for a regular education student versus a bilingual student, a gifted student, etc., districts are able to allocate money to schools based on their specific student population. Oakland has gone a step further and is now experimenting with using real salaries in its school allocations.

Changing the way a district allocates resources is not easy, as it generally means some schools will lose out in the transition. Yet, in this case, change is needed. As more states expand fiscal data collection to the school level (currently less than half the states collect any fiscal data down to the level of the school) and policymakers close loopholes in categorical funding requirements for comparability, we can anticipate that districts will reshape their fiscal policies. And as they do, we can expect less "slip" between a district's total resources and what gets spent on any one school.

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[i] For instance, a principal in a school of 200 costs more per pupil than the same principal overseeing 300 students. In addition, inequities are created when a school's enrollment is on the cusp of a range, say 399 versus 400 when a positions like a vice principal are allocated only for enrollments of 400 or greater.

[ii] "Plugging the budget" is a practice Seattle used to fill existing holes in the budget by inflating projections of future revenues.

[iii] School Communities That Work, an initiative of the Annenberg Institute for School Reform, has an online tool, entitled Assessing Patterns of Resource Distribution, that allows school- spending variations taking into account the differing needs of students. This tool is available at http://www.schoolcommunities.org/resources/APRD/welcome.php.

[iv] Two examples of new accounting structures include: Miller, L. J., Roza, M., Swartz, C. (2005). A Cost Allocation Model for Shared District Resources: A Means for Comparing Spending Across Schools. *Developments in School Finance* (in press). U.S. Department of Education. Washington, DC: National Center for Education Statistics; and Odden, A., Archibald, S., Ferminick, M., and Gross, B. (2003). Defining School-Level Expenditure Structures That Reflect Educational Strategies, *Journal of Education Finance*, 28(3): 323–356.